

BSc Financial Economics  
International Finance  
Homework 1

*Question 1*

I. Record the following transactions in the Pongoland balance of payments using the double-entry bookkeeping system. Use the following accounts:

- Merchandise exports
  - Merchandise imports
  - Services
  - Income
  - Current transfers
  - Pongoland claims on foreigners
  - Foreign claims on Pongoland
  - Direct investment
  - Official Reserves
- A. Pongoland residents buy sweaters costing 4 million pongos from the UK. They pay with cheques drawn on a Pongoland bank. [Note: the currency of Pongoland is the pongo.]
- B. Pongoland corporations sell cars costing 8 million pongos to residents in the US. They are paid with cheques drawn on US banks.
- C. Pongoland residents earn 3 million pongos on their investments in Switzerland. They are paid with cheques drawn on Swiss banks.
- D. Pongoland residents send a gift of 1 million pongos of food to a small island nation that was hit by a hurricane.
- E. A German company pays 5 million pongos for a company located in Pongoland. It pays with a cheque drawn on a Pongoland bank.

II. Provide a balance of payments table for Pongoland

*Question 2*

A UK distillery sells an American firm 200 cases of whiskey in exchange for a £25,000 cheque drawn on American bank. The distillery uses £15,000 of the money it receives to buy equipment from a French firm and the other £10,000 to retire bonds that it had issued years ago to a group of Italian investors. Write all of the resulting balance of payments entries for the United States, the United Kingdom, France and Italy.

*Question 3*

During 2008, suppose that Ruritania had a current account surplus of \$100 million, a capital account deficit of \$2 million and a financial account deficit of \$120 million. Assume that there was no measurement error.

- A. What was the change in Ruritanian official reserves in 2008?
- B. What was the Ruritanian balance of payments in 2008?

C. What was the gap between Ruritanian savings and investment?